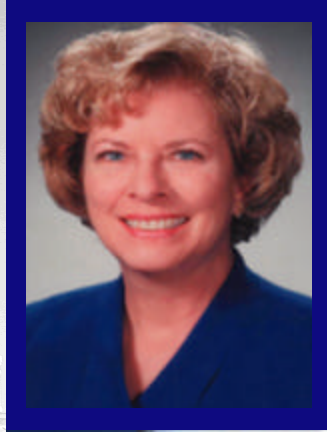


*A REPORT
TO INDIANA
CITIZENS
ON THE
STATE'S
FINANCES*

*Volume II
Issue I*

Dec. 31, 2002

<http://www.in.gov/auditor>



**Connie Nass,
Auditor of State**



Auditor of State

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Dear Indiana Citizens:

This fifth semi-annual *Report to Indiana Citizens on the State's Finances* represents a new day in Indiana government financial reporting. Revised governmental accounting standards have enabled our office to provide more accurate and broadly-based financial statements. The information on pages 3 through 5 is the result of extraordinary steps taken by the Auditor of State's office in conjunction with other government agencies to meet these new standards. These financial reports now provide more detailed and accurate data, keeping government as accountable to taxpayers as we want corporations to be to shareholders.

The reports on page 3 provide condensed schedules of net assets (Balance Sheet) and the change in net assets (Income Statement) which are comparable to financial statements presented in private sector businesses. Infrastructure and other capital assets never before listed on the financial statements of the State are now included, painting a clearer picture of Indiana government's assets.

On pages 4 and 5, a new government-wide statement of activities sheds light on the overall condition of Indiana government finances. This statement identifies how much various departments of Indiana government cost the State each year and, more importantly, the change in net assets of the State over the previous fiscal year. The change in net assets helps to measure the improvement or deterioration of the State's financial condition during the fiscal year.

Page 6 provides a summary of the State government's long-term debt and debt payment schedule. In addition to this new data, we have again included information on total State Cash and Investment Balances, the General Fund Surplus, and revenue trends that you have become accustomed to seeing in this report. Please e-mail me at comments@audlan.state.in.us, or call (317)232-3300, if you have any questions or comments about this publication or its contents. You may also view this report along with other pertinent information such as the Comprehensive Annual Financial Report (CAFR) on our website at www.in.gov/auditor.

Sincerely,
Connie Nass
Auditor of State

Cash and Investment Balances (all funds) as of December 31, 2002

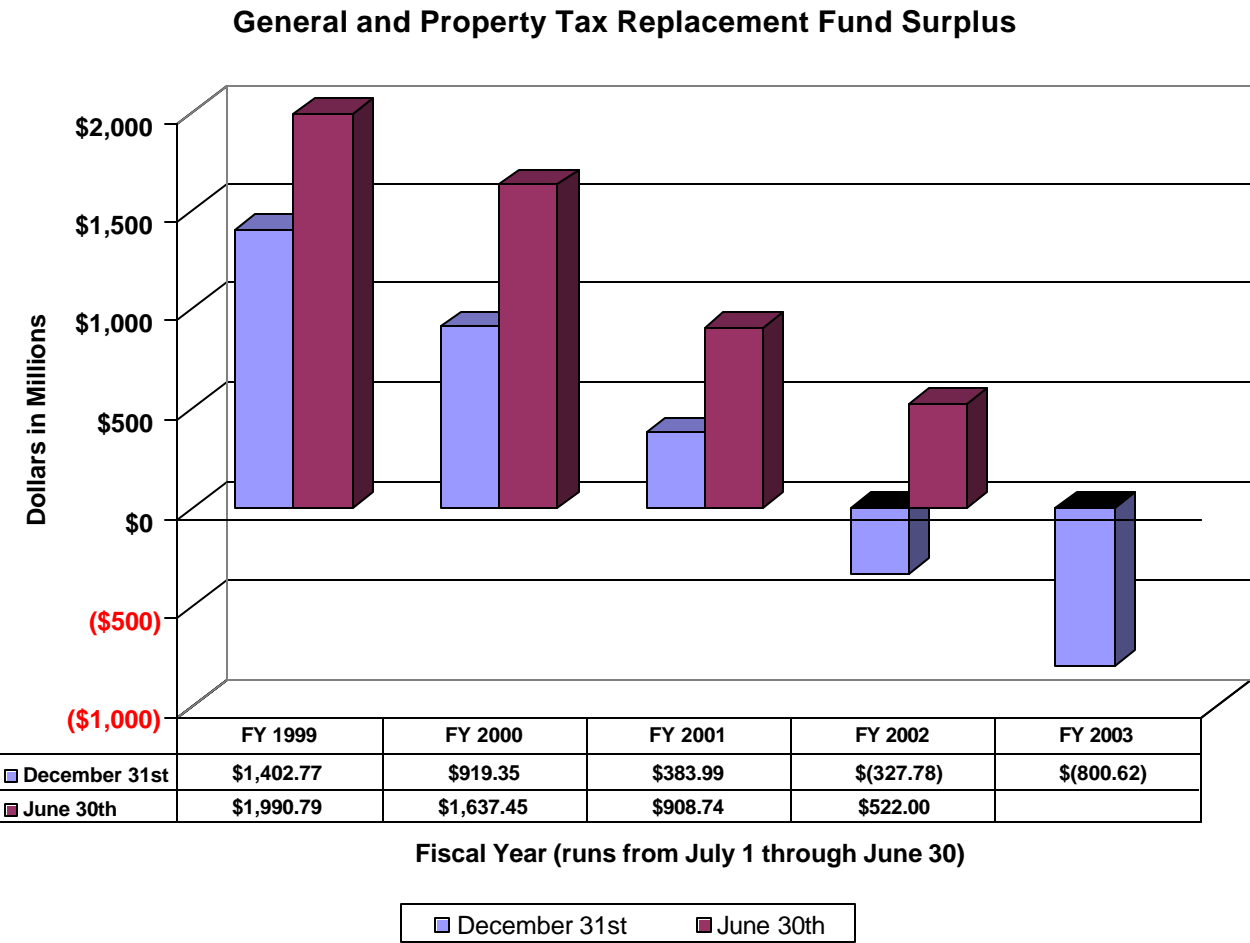
	Accounts Used In Calculating The Surplus	Accounts Not Used In Calculating The Surplus	Total All Funds
General Fund Cash and Investments	\$ (1,631,267,454)	\$ 1,055,443,640	\$ (575,823,814)
Rainy Day Fund	250,245,644		250,245,644
Total General Fund Cash and Investments	(1,381,021,810)	1,055,443,640	(325,578,170)
Non General Fund Cash and Investments		2,052,126,613	2,052,126,613
Property Tax Replacement Fund	593,025,821		593,025,821
Total Non General Fund Cash and Investments	593,025,821	2,052,126,613	2,645,152,434
Grand Total All Funds Cash and Investments	\$ (787,995,989)	\$ 3,107,570,253	\$ 2,319,574,264

General Fund and Property Tax Replacement Fund Surplus

For budgetary purposes, Indiana State government’s “General Fund and Property Tax Replacement Fund Surplus” is also referred to as the “General Fund Surplus.” The General Fund is the State’s checking account. The General Fund Surplus includes the reverting accounts in the General Fund, the Property Tax Replacement Fund, the Reserve for Tuition Support, and the Rainy Day Fund. The General Fund Surplus is calculated monthly and reported to the State Budget Agency and the General Assembly.

The graph at the bottom of this page shows the surplus every six months from December 1998 through December 2002. The surplus has declined from \$1.991 billion on June 30, 1999 to \$522.00 million on June 30, 2002. The surplus has further declined to a negative \$800.62 million on December 31, 2002. This translates into a \$1.323 billion decline in six months.

The December 31, 2002, deficit is caused in part by July 1, 2002, cash transfers to certain non-reverting accounts and funds outside the General Fund. Transfers were made at the beginning of the fiscal year to cover anticipated expenses in those accounts and funds for the entire fiscal year. If only six months’ cash transfers had been made to those accounts and funds, approximately \$850 million of cash in other accounts would have remained in the accounts used in calculating the surplus, and the General Fund Surplus would have been correspondingly higher.



State of Indiana
"Balance Sheet"
June 30, 2002
(in millions of dollars)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental & Proprietary	Colleges & Universities
Current and other assets	\$ 7,461.5	\$ 3,297.7	\$ 10,759.2	\$ 4,115.7	\$ 3,183.7
Capital assets	10,181.0	249.1	10,430	0.4	3,527.1
Total assets	17,642.5	3,546.8	21,189.3	4,116.1	6,710.8
Current liabilities	3,479.7	161.6	3,641.3	973.4	788.6
Long-term liabilities	1,842.1	1,289.7	3,131.8	2,572.0	1,366.8
Total liabilities	5,321.8	1,451.3	6,773.1	3,545.4	2,155.4
Net assets:					
Invested in capital assets, net of related debt	8,683.4	19.8	8,703.2	0.4	2,260.5
Restricted	666.4	2,054.3	2,720.7	121.7	1,260.1
Unrestricted	2,970.9	21.4	2,992.3	448.6	1,034.8
Total net assets	\$ 12,320.7	\$ 2,095.5	\$ 14,416.2	\$ 570.7	\$ 4,555.4

State of Indiana
"Income Statement"
June 30, 2002
(in millions of dollars)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental & Proprietary	Colleges & Universities
Revenues					
Program revenues					
Charges for services	\$ 1,178.8	\$ 1,049.5	\$ 2,228.3	\$ 110.7	\$ 1,738.8
Operating grants and contributions	6,171.9	0.6	6,172.5	198.9	736.2
Capital grants and contributions	37.0	92.3	129.3	-	108.9
General revenues					
Individual and corporate income taxes	4,307.6	-	4,307.6	-	-
Sales taxes	3,630.1	-	3,630.1	-	-
Other	2,159.1	329.0	2,488.1	53.9	1,437.8
Total Revenues	17,484.5	1,471.4	18,955.9	363.5	4,021.7
Program Expenses					
General government	3,097.8	-	3,097.8	-	-
Public safety	1,134.0	-	1,134.0	-	-
Health	332.7	-	332.7	-	-
Welfare	6,403.5	-	6,403.5	-	-
Conservation, culture and development	473.1	-	473.1	-	-
Education	5,718.3	-	5,718.3	-	-
Transportation	1,099.5	-	1,099.5	-	-
Interest expense	87.3	-	87.3	-	-
Toll roads	-	85.7	85.7	-	-
State revolving fund	-	50.3	50.3	-	-
Unemployment compensation fund	-	804.9	804.9	-	-
State lottery commission	-	521.1	521.1	-	-
Other	0.5	23.6	24.1	-	-
Component units:					
Governmental and proprietary	-	-	-	325.6	-
Colleges and universities	-	-	-	-	3,809.5
Total expenses	18,346.7	1,485.6	19,832.3	325.6	3,809.5
Excess (deficiency) before transfers	(862.2)	(14.2)	(876.4)	37.9	212.2
Transfers	85.8	(107.2)	(21.4)		-
Special item	(9.3)	-	(9.3)		-
Change in net assets	(785.7)	(121.4)	(907.1)	37.9	212.2
Beginning net assets	13,106.4	2,216.9	15,323.3	532.8	4,343.2
Ending net assets	\$ 12,320.7	\$ 2,095.5	\$ 14,416.2	\$ 570.7	\$ 4,555.4

2002 marks the first year the State’s Comprehensive Annual Financial Report (CAFR) has been prepared to comply with the new Governmental Accounting Standards Board (GASB) Statement No. 34. This new standard requires that the report utilize the accrual method of accounting in a manner comparable to financial statements prepared by private businesses.

Infrastructure (roads, bridges, dams) and right of way land in the amount of \$8.4 billion are included in the financial statements for the fiscal year ending June 30, 2002. These items are included in the “Balance Sheet” under Capital assets. This has the effect of showing a corresponding increase in net assets over previous years to \$12.3 billion. The inclusion of this information provides a broader perspective of Indiana state government’s overall financial position.

This is the first time this Statement has been presented by the State of Indiana. To be more accountable to the public and more in-line with the high standards required of private enterprise, this Government-Wide Statement of Activities uses the accrual basis of accounting.

This Statement shows the expenses and program revenues attributable to each function of government. This identifies each function of Indiana government as either self-supporting or requiring additional general revenues.

The bottom portion of this Statement shows the general revenues that fund the cost of the government function after the program revenues are taken into account. If the general revenues are insufficient to cover the costs, then there is a decrease in net assets. Similarly, if the revenues exceed the costs, there is an increase in net assets. The last three rows of the Statement show the change in net assets along with the beginning and ending net asset totals for the fiscal year.

For fiscal year 2002, Indiana’s net assets declined by \$785.7 million, which equals 4.5% of total revenues.

The Government-Wide Statement of Activities Identifies the Net Cost of Various Functions of Indiana Government.

State of Indiana
Government-Wide Statement of Activities
For the Year Ended June 30, 2002
(amounts expressed in thousands)

Functions/Programs	(Expenses)	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Governmental and Proprietary	Colleges and Universities
Primary government:									
Governmental activities:									
General government	\$ (3,097,818)	\$ 284,537	\$ 178,468	\$ 21,245	\$ (2,613,568)	\$ -	\$ (2,613,568)	\$ -	\$ -
Public safety	(1,134,037)	537,805	99,509	9,417	(487,306)	-	(487,306)	-	-
Health	(332,712)	22,750	140,608	1,358	(167,996)	-	(167,996)	-	-
Welfare	(6,403,514)	228,445	4,286,436	-	(1,888,633)	-	(1,888,633)	-	-
Conservation, culture and development	(473,090)	96,100	200,768	-	(176,222)	-	(176,222)	-	-
Education	(5,718,249)	4,227	529,283	-	(5,184,739)	-	(5,184,739)	-	-
Transportation	(1,099,448)	4,898	736,779	5,022	(352,749)	-	(352,749)	-	-
Unallocated interest expense	(87,310)	-	-	-	(87,310)	-	(87,310)	-	-
Other	(511)	22	-	-	(489)	-	(489)	-	-
Total governmental activities	(18,346,689)	1,178,784	6,171,851	37,042	(10,959,012)	-	(10,959,012)	-	-
Business-type activities									
Toll Roads	(85,658)	89,322	-	-	-	3,664	3,664	-	-
State Revolving Fund	(50,350)	55,272	-	92,327	-	97,249	97,249	-	-
Unemployment Compensation Fund	(804,882)	257,344	-	-	-	(547,538)	(547,538)	-	-
State Lottery Commission	(521,148)	626,310	-	-	-	105,162	105,162	-	-
Other	(23,638)	21,223	590	-	-	(1,825)	(1,825)	-	-
Total business-type activities	(1,485,676)	1,049,471	590	92,327	-	(343,288)	(343,288)	-	-
Total primary government	\$ (19,832,365)	\$ 2,228,255	\$ 6,172,441	\$ 129,369	(10,959,012)	(343,288)	(11,302,300)	-	-
Component units:									
Governmental and proprietary	(325,660)	110,693	198,910	-	-	-	-	(16,057)	-
Colleges and universities	(3,809,487)	1,738,839	736,193	108,879	-	-	-	-	(1,225,576)
Total component units	\$ (4,135,147)	\$ 1,849,532	\$ 935,103	\$ 108,879	-	-	-	(16,057)	(1,225,576)
General Revenues:									
Income tax					4,307,550	-	4,307,550	-	-
Sales tax					3,630,102	-	3,630,102	-	-
Fuels tax					766,998	-	766,998	-	-
Gaming tax					520,353	-	520,353	-	-
Unemployment tax					-	232,396	232,396	-	-
Inheritance tax					153,593	-	153,593	-	-
Alcohol & Tobacco tax					83,652	-	83,652	-	-
Insurance tax					183,644	-	183,644	-	-
Financial Institutions tax					58,570	-	58,570	-	-
Other tax					229,272	-	229,272	-	-
Total taxes					9,933,734	232,396	10,166,130	-	-
Revenue not restricted to specific programs									
Investment earnings					124,478	96,648	221,126	15,857	32,352
Payments from State of Indiana					-	-	-	38,067	1,250,550
Other					38,577	-	38,577	3	154,854
Transfers within primary government					85,794	(107,215)	(21,421)	-	-
Total general revenues and transfers					10,182,583	221,829	10,404,412	53,927	1,437,756
Special Item:									
Payback to federal government					(9,296)	-	(9,296)	-	-
Changes in net assets					(785,725)	(121,459)	(907,184)	37,870	212,180
Net assets - beginning					13,106,400	2,216,940	15,323,340	532,778	4,343,173
Net assets - ending					\$ 12,320,675	\$ 2,095,481	\$ 14,416,156	\$ 570,648	\$ 4,555,353

HOW TO READ THE
GOVERNMENT-WIDE
STATEMENT OF
ACTIVITIES:

For example:
To determine the net cost of transportation, the first column of the report shows the total transportation expense of \$1,099,448,000. Charges for services in the amount of \$4,898,000, operating grants and contributions in the amount of \$736,779,000, and capital grants and contributions in the amount of \$5,022,000, cover part of the cost of transportation. When the revenues are subtracted from the total expense, the net expense of transportation is \$352,749,000, which is shown in both the fifth and seventh columns of the Statement.

Because transportation is in a deficit position, general revenues are needed to supplement transportation revenues. These general revenues include total taxes of \$9,933,734,000 and investment earnings of \$124,478,000. Because a deficit remains after all functions of governmental activities including transportation have been funded, net assets decreased by \$785,725,000 during fiscal year 2002.

Long-Term Debt Owed as of June 30, 2002:

Summary of Long-Term Debt including current portion (in thousands)	Interest Rates Range	Maturity Range	Annual Payment Range (Dollars in Thousands)	Amount (Dollars in Thousands)
Governmental Activities				
Recreational Development Commission	3.60% - 6.125%	2003 - 2019	\$1,945 - 2,509	\$ 23,387
ITFA Highway Revenue Bonds	4.25% - 7.25%	2003 - 2026	\$1,465 - 16,750	699,182
ITFA Airport Facilities Bonds	4.50% - 6.50%	2003 - 2017	\$795 - 7,265	210,185
ITFA Aviation Technology Center Bonds	2.45% - 5.00%	2004 - 2017	\$265 - 920	10,095
Indiana State Office Building Commission	2.30% - 7.50%	2003 - 2022	\$317 - 14,417	883,327
				<u>\$ 1,826,176</u>
Business-type Activities:				
State Lottery Commission	1.95% - 6.00%	2003 - 2026	\$40 - 827	\$ 94,984
East-West Toll Road	3.90% - 9.50%	2003 - 2015	\$2,735 - 26,200	227,797
State Revolving Fund	3.50% - 7.00%	2003 - 2023	\$22,622 - 96,874	1,026,925
Inns and Concessions	5.60%	2003 - 2004	\$140	222
				<u>\$ 1,349,928</u>

Long-Term Debt Payment Schedule as of June 30, 2002:

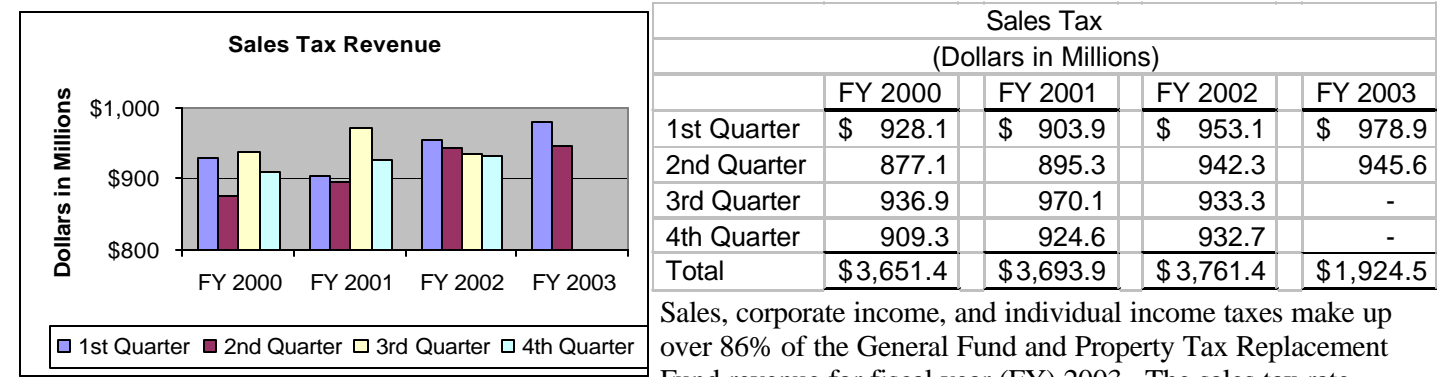
Long-Term Debt of Governmental Activities (Dollars in Thousands)			
Year Ending, June 30	Principal	Interest	Total
2003	\$ 55,983	\$ 90,138	\$ 146,121
2004	162,640	90,514	253,154
2005	65,452	86,999	152,451
2006	69,597	83,304	152,901
2007	75,100	79,175	154,275
2008-2012	431,166	330,387	761,553
2013-2017	507,504	195,531	703,035
2018-2022	329,827	89,089	418,916
2023-2027	173,510	18,296	191,806
Premium/(discount)	(49,669)	-	(49,669)
Total	<u>\$1,821,110</u>	<u>\$1,063,433</u>	<u>\$2,884,543</u>

Long-Term Debt of Business-type Activities (Dollars in Thousands)			
Year Ending, June 30	Principal	Interest	Total
2003	\$ 73,848	\$ 71,347	\$ 145,195
2004	37,464	65,554	103,018
2005	41,081	64,089	105,170
2006	46,045	62,344	108,389
2007	49,305	60,295	109,600
2008-2012	309,700	263,329	573,029
2013-2017	398,420	169,322	567,742
2018-2022	310,276	70,257	380,533
2023-2027	81,985	6,268	88,253
Premium/(discount)	1,804	-	1,804
Total	<u>\$1,349,928</u>	<u>\$ 832,805</u>	<u>\$2,182,733</u>

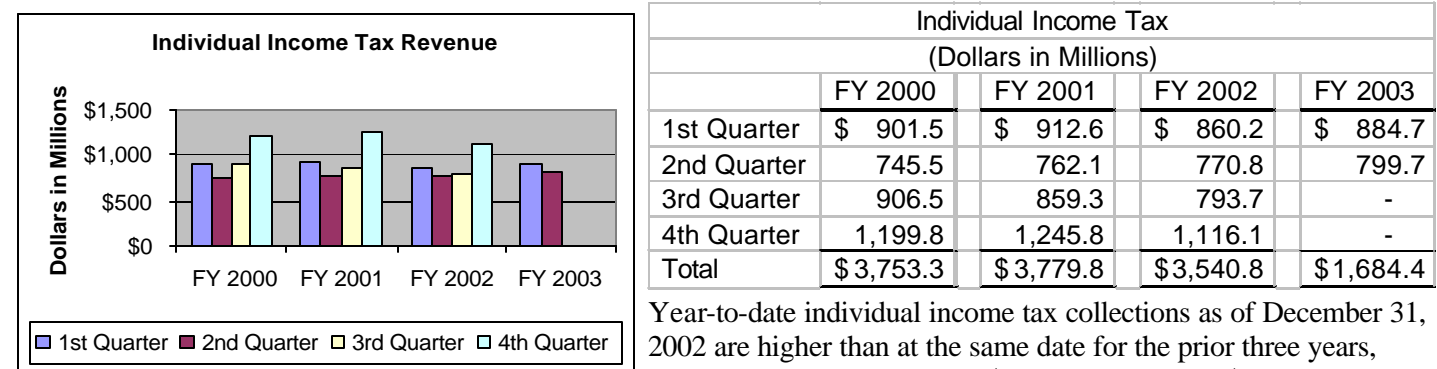
Long-term debt consists of revenue bond or other obligations of (1) the Indiana Transportation Finance Authority (ITFA) highway bonds, airport facility bonds, and aviation technology bonds; (2) the Department of Natural Resources’ (DNR) Recreational Development Commission; (3) the Indiana State Office Building Commission; (4) the State Lottery Commission; (5) the East-West Toll Road; (6) the State Revolving Fund; and (7) DNR’s Inns and Concessions.

Page 68 of the June 30, 2002 Comprehensive Annual Financial Report (CAFR) includes a detailed explanation of the long-term obligations of the State of Indiana at Note IV(F) of the Notes to the Financial Statements. The CAFR may be viewed on our website at www.in.gov/auditor.

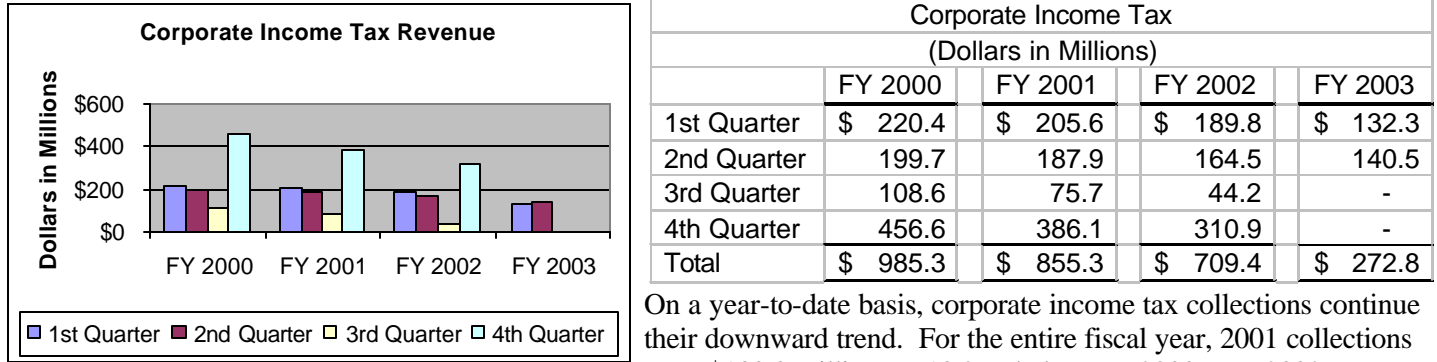
General and Property Tax Replacement Fund Revenue Trends (Cash Basis)*



increased from 5% to 6% effective December 1, 2002. Sales tax revenue has increased each year. Collections for December 2002 were 5.0% higher than the same month a year earlier, however collections for October and November 2002 were 0.1% lower and 3.6% lower, respectively, than year earlier collections for the same months, accounting for the modest 0.4% growth from 2nd quarter 2002 to 2nd quarter 2003.



4.9%. Individual income tax collections in FY 2003 have exceeded FY 2002 collections in August, September, November and December. The FY 2003 target was revised on December 18, 2002. The FY 2003 target was lowered by \$168.2 million dollars from the target based on the legislation passed in the 2002 special session of the Indiana General Assembly. Inasmuch as FY 2002 collections were \$239 million or 6.3% below FY 2001 collections, the current fiscal year collections reflect a trend reversal.



collections were \$145.9 million, or 17.1%, below FY 2001. FY 2003 collections as of December 31, 2002 are \$81.5 million, or 23.0%, below FY 2002 . Although collections through the 2nd quarter of FY 2003 exceed the target amount of \$256.4 million by 16.4 million, or (6.40%), this target was also lowered from the previous target. The FY 2003 target, which now stands at \$550.2 million, was lowered by \$262.0 million from the previous target of \$812.2 million.

As of December 31, 2002, total year-to-date FY 2003 General Fund and Property Tax Replacement Fund revenues of \$4,528.3 million are \$337.9 million higher than the FY 2002 collections for the same months.

* All targets and projections are prepared by the Economic Forecast Committee.